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Distressed Muni Borrowers Are Still Piling Up in Pandemic's Wake.

- **Last week's tally of 8 issuers lifts 2021 total to 76: MMA**
- **Two in five borrowers that draw support eventually default**

The wave of U.S. municipal-bond distress set off by the pandemic is still spreading even as the economy recovers from the devastation of the outbreak.

Eight muni borrowers became distressed last week, lifting this year's tally to 76, according to Municipal Market Analytics. That puts 2021 on track to exceed almost every year since 2012 in terms of impairments. Only 2020, when the coronavirus caused some of the worst market turmoil on record, was worse.

The isolated cases of deterioration in certain smaller, typically lower-rated or unrated issuers stand at odds with the optimism in statehouses nationwide, which have been buoyed by strong tax revenue and federal stimulus. It's been a banner year for munis, with tax-exempt yields near record lows relative to those on Treasuries. Any defaults have mostly been confined to a corner of the market where businesses borrow through government agencies.

"While credit conditions are clearly better than at this time last year, they are by no means fully corrected," Matt Fabian, a partner at Municipal Market Analytics, wrote in a Wednesday note.

Overall muni credit health is on the mend as the economy revives. And the tally of issuers in distress is a drop in the bucket when compared to the tens of thousands of separate borrowers that compose the $3.9 trillion market.

'Last Throes'

Eric Kazatsky, senior U.S. municipals strategist for Bloomberg Intelligence, sees the trajectory relative to last year as a sign of growing strength.

"You have to take things with a grain of salt given the fact that we are coming out of the last throes of a global pandemic," he said. Total distress and default activity is running at about half of last year's rate, which "shows there is a lot of resiliency, there are less credit issues lingering."

Fabian cited concern for a few areas: smaller senior-living projects that are struggling to survive the pandemic and its aftermath as well as smaller hospitals and colleges.

MMA defines a distressed issuer as one that defaulted, used support measures, like emergency means to cover debt service, violated a covenant or had a developer that went insolvent.

Default Flag

Emergency borrowing can be an indicator of more severe distress down the line in a market where defaults are rare, with about two in five impaired muni borrowers ultimately falling into default.

Last week's impairments included five land-secured districts and three retirement projects. This year, retirement facilities have accounted for the largest segment of outstanding bonds with impairments, excluding Puerto Rico, at about $6.5 billion.

A Reno, Nevada, bond deal is also showing signs of lingering financial pain from the pandemic, drawing on a supplemental reserve account to pay bondholders on June 1, according to a regulatory filing.

The hotel-tax bonds were undermined by a drop in tourism to the area and pandemic-mandated closures of casinos and hotels, according to the filing.

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